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Consumer Discretionaries (housing, autos) and Financials missed the 2001 downturn when the Fed dropped the Fed Funds rate from 6.5% to 1.0%.

June 2002: We rolled out our Housing Cycle Barometer™ and called Boston, San Diego, Fort Lauderdale, San Francisco and Miami overpriced.

Source: Our interpretation of information in "The Wall-Timed Strategy" and "When it Rains in Brazil, Buy Starbucks", both by Peter Navarro

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But interest rates kept falling, fueling consumer spending and economic growth.

Source: Our interpretation of information in "The Wall-Timed Strategy" and "When it Rains in Brazil, Buy Starbucks", both by Peter Navarro

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Government pushed homeownership hard by making it easy for Fannie and Freddie to grow.

Source: Census Bureau, updated through 2009:Q2

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HOUSING DEMAND: Job losses are occurring in most markets.

Source: John Burns R.E. Consulting Regional Market Monitor, October 2008

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We believe NAR sales data is very wrong. Sales have corrected to early 1990s levels.

The NAR and MBA report that activity has fallen back to early 2000s levels.

Local MSA closing data, and Census Bureau new home data, show that sales have fallen back to early 1990s levels.

John Burns R.E. Consulting, NAR, Census, MBA (August/09 Market Monitor)

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The number of unsold homes is on the decline

- New inventory needs to fall 19% more to get back to historical norms.
- Resale inventory needs to fall 42% more to get back to historical norms.

Source: Census Bureau as of 06/08

Source: NAR, updated through Aug 2008 - 4,235,000

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There are 2 million Excess Homeowners and 2 million Excess Vacant Units.

Excess Housing (Excess Vacancy + Excess Homeownership) Created based on Reversion to Historical Trend Lines

Legend: Excess Vacant Homes: 2,280,000; Excess Homeownership: 2,000,000

Y-axis: Excess Housing Units (000)

X-axis: 1999Q4 to 2006Q2

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Despite heavy foreclosures, listings appear to be topping out.

Listings (Year-Over-Year % Change) Top 20 U.S. Housing Markets

Market Average = 4.5%

Y-axis: % Change (-20% to 20%)

X-axis: Denver, CO; Washington D.C.; Phoenix/Az/Scottsdale; Fort Worth; Dallas; Atlanta; Los Angeles; Phoenix; Houston; Tampa; Chicago; Las Vegas; Orlando; New York; Dallas; San Antonio; Austin; Raleigh/Cary; Seattle

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Foreclosures will remain at a high level as job losses mount and Option ARMs reset.

ARM Reset Schedule

Legend: AA-A ARM; Subprime ARM; Prime ARM; Agency ARM; Option ARM; Unleveraged ARMs

Y-axis: Amount (\$ Billions)

X-axis: Months To Reset (1 to 72)

Note: Data as of January 2007. Source: Credit Suisse Fixed Income U.S. Mortgage Strategy.

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Resale Prices are plummeting.

Case-Shiller may have showed more price appreciation in 2006 than actually occurred in most suburbs, and is now showing more correction.

U.S. National Home Price Indices

Legend: S&P/Case-Shiller National Price (S); JBP/EC Primary Markets Median Price (161); JBP/EC National Median Price (331); 12-Month Price % Change

Y-axis: Indexed 100 in 2000=100

X-axis: 1990 to 2012P

John Burns R.E. Consulting, NAR, S&P/CS (October 06 Market Monitor)

We surmise that 2006 sales had a high mix of homes in the lower-priced areas where poor credit households live:

- Held down the median price
- Pumped up the median price appreciation rate

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New home price declines vary greatly by region.

New Home Price Decline from Peak

Legend: Riverside-San Bernardino, CA (-38%); Phoenix, AZ (-34%); Los Angeles, CA (-33%); Washington D.C. (-31%); San Diego, CA (-28%); Orange County, CA (-25%); U.S. (-22%); Atlanta, GA (-16%); Charlotte, NC (-11%); Dallas, TX (-10%); Houston, TX (-4%)

Y-axis: % Decline (-40% to 0%)

X-axis: Regions

Source: John Burns Real Estate Consulting independent survey, NSA October 08

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Affordability: Housing costs/income are more relevant, and Current Housing Costs are at their long-term average!

Housing Costs/Income Ratio Percentage - Top 20 Markets -

Legend: Historical Average; Current; Projected Trough

Y-axis: % Ratio (0% to 80%)

X-axis: Top 20 Markets

Source: MDC Laboratories

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